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UniCredit S.p.A. (UNCFF) Q3 2023 Earnings Call Transcript

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UniCredit S.p.A. (OTCPK:UNCFF) Q3 2023 Results Conference Call October 24, 2023 4:00 AM ET

Company Participants

Magda Palczynska - Head, IR
Andrea Orcel - CEO
Stefano Porro - CFO

Conference Call Participants

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Andrea Filtri - Mediobanca
Delphine Lee - JPMorgan
Antonio Reale - Bank of America
Giovanni Razzoli - Deutsche Bank
Chris Hallam - Goldman Sachs
Ignacio Cerezo - UBS

Operator

Good morning, ladies and gentlemen. Before I hand over to Magda Palczynska, Head of Investor Relations, a reminder that today's call is being recorded. Madam, you may begin.

Magda Palczynska

Good morning, and welcome to UniCredit's Third Quarter 2023 Results Conference Call. Andrea Orcel, our CEO, will lead the call. Then Stefano Porro, our CFO, will take you through the financials in more detail. Following Andrea's closing remarks, there will be a Q&A session. Please limit yourself to two questions.

With that, I will hand over to Andrea.

Andrea Orcel

Good morning. Thank you, Magda, and thank you all for joining us today. When we set out on this transformation journey, many people said that we were too ambitious. But looking back with these results, our 11th consecutive quarter of quarterly growth and record quarter and 9 months numbers, you could argue that we were not optimistic enough. UniCredit's potential has again been proven. This is particularly striking that from day 1 we have been faced with heightened uncertainty about European economic growth, the impact of Central Bank's reactions and a backdrop even now of unprecedented geopolitical volatility, which has redefined our understanding of the new normal.

Despite the continued macro challenges, what I will explain today shows the potential of this bank, the result of which can be seen not only this year and next, but over the longer term as our strategy to invest in the future continues. We are not only producing excellent results, but more importantly, we're producing the right kind of results, results that show the discipline with which we are focusing on quality profitable growth, operational and capital efficiency, building lines of defense and continuing to invest in the business for the future.

While we acknowledge that our performance has been further propelled by the risk environment net of inflation, it is grounded on the continued advancement of our financial, industrial and cultural transformation. This means that we're not only confident in the profitability and distribution of this year, but also in our ability to deliver in the longer term.

Let's start our presentation. Like every successful organization, UniCredit is united around a clear purpose and vision. For us, it is empowering communities to progress, while becoming the bank for Europe's future and setting a new benchmark for banking. Our pan European model delivers this vision through a winning strategy. Our people, united by common principle, that is an ambition, offering local service to clients and communities. Best-in-class products and content, leveraging our Group's scale and factories.

The scale we are capturing in order to converge data and technology. More specifically, at our core, we build everything around our times to whom we offer unique gateway to Europe. We empower and trust our people to whom we offer a more connected organization capable of attracting and developing the best talent. We offer an attractive and sustainable opportunity for our investors, both in terms of returns and profitable growth delivering Europe.

We foster 2-way approach with our partners, attracting the very best-in-class and providing them with access across 13 markets, while obtaining reciprocal access to their client bases. We support and give back, empowering the European communities in which we and our clients operate. In short, we are rebuilding this business from the bottom up, putting it back together block-by-block and propelling it forward with consistency quarter-after-quarter. Our underlying success giving us license to do increasingly and incrementally more beyond what is expected.

Today, we will guide you through three main sections. First, a demonstration of another great set of results confirming our quality profitable growth trajectory and delivery across all our levers, beating expectations. Second, how our results are protected by lines of defense and propelled by investment to secure and boost profitability tomorrow. Third, what this means for our guidance '23, '24 and beyond, both in terms of profitability and distribution as we support current result and propel future successes.

In Q3, we have delivered yet another strong quarter of quality profitable growth across all our regions and all our levers beating consensus once again by one margin. We maintained our excellent levers of net revenue growth, operational and capital excellence, return on tangible equity at 13% CET1 and organic capital generation supporting our leadership in sustainable distribution relative to our market cap. This quarter, we have again beaten the targets for our three levers of net revenue, trust and capital as well as the related KPIs of cost income ratio, net revenue to RWAs and organic capital generation. The numbers I will refer to are year-over-year and on a Group basis. Hence, they still include Russia.

Our net revenues are up 33% in the 9 months, supported by the quarter, up 23%. I remind you that the hit from Russia was concentrated in the first quarter of 2022, which affects the year-over-year comparison. Gross revenue strengths are broadly the same. This is mostly driven by NII, up 43% in the 9 months and 45% in the quarter as we continue to manage the deposit pass through well and we benefit from higher rates. This is connected to the strengths of the organization and of our people. Our fees are flat over the 9 months and down 1% in the quarter when adjusted for the current account fee reduction in Italy and the increased cost of securitization to support our RWAs efficiencies. This confirms the resiliency of our fee base and the strong performance of our product factories in a challenging macro environment.

Cost of risk is at 12 basis points and at 19 business points growth of write-backs in the quarter. This is not only consistent with our guidance of a cost of risk through the cycle of 20 to 25 basis points, but also confirms the quality of our credit portfolio and the conservativeness of our staging, provision and overlays which are partially reflected in the write-backs we continue to see. Costs, costs are a clean beat, down 1% in the 9 months and down 2.3% in the quarter, driven by our disciplined and targeted approach on efficiencies.

We have moved firmly from an organization hampered by a bloated corporate center and inefficient cost base to one increasingly streamlined and capable of absorbing inflation and significant continuing investments, while decreasing absolute cost. We will continue to do so. It is important to note that were we not continuing to invest in the future, our absolute cost and cost income ratio would significantly beat the trends that we are seeing today. Stefano will shortly take you through this.

We have achieved this by streamlining and simplifying our business, our organization, our processes and our way of working. We're increasingly leveraging our scale in procurement and eliminating waste, whilst gradually rolling out automation and digitization and we are not done yet. This driving for operational excellence enables us to reinvest in our people in terms of hiring, training, further advancement of their career, so we have the best people empowerment -- empowered to serve our clients. It also enables us to continue building up our best-in-class product factories, complemented by our growing ecosystem of partnership. And finally, it allows us to progress in our digital and data offering, eventually transforming our client journeys.

In summary, we're funding our future growth. While funding our future growth, we're also delivering a cost income ratio of 39%, a 44% increase of gross operating profit, a record net profit of €6.7 billion, a 9% reduction in RWAs to €290 billion, all leading to a record 21.7% return on tangible equity at 15% CET1 and €9.9 billion of organic capital generation for the 9 months were more than twice our expected organic capital generation of the year that we had in our lock. Such strength is reflected across all our regions that have either maintained or increased their overall market share, will shift towards our segments of choice, each one delivering to produce results that are strong in their own right.

I will now guide you through each one of our regions excellent performance, commenting trends on a year-over-year basis. Italy. Our Italian business delivered another quarter of strong results. Net revenues rose 23%, reaching €7.8 billion in the 9 months, further accelerated by a strong third quarter with a 33% growth. This was driven by NII up 67% with quarter trend aligned; thanks not only to a favorable risk environment, but also an excellent pass through management, a confirmation of the unique value delivered by our people and the trust built with our customers.

Fees in the 9 months are down 6%, 8% in the quarter. This however, was driven almost exclusively by an acceleration in securitization to maximize capital efficiency and a reduction in current account fees since April to support our clients. Excluding these, fees are down only 2%, and Stefano will take you through the various categories of fees and how that is differentiated.

The pursuit of operational excellence continues with cost down 2% both 9 months over 9 months and in the quarter, while continuing to invest in our frontline, in our products channels and in our people. Our cost income ratio in Italy further declined to 35.6%. In parallel, our focus on capital efficiency improved our net revenue over RWAs by 2.7 percentage points to 9.2%. Profit before tax rose 44% in the 9 months to €4.3 billion, boosted by a strong RoAC in Q3 of 82%, driven by NII and LLPs, all leading to increasing RoAC above 25%. This has been achieved while continuing to keep our clients at the center of all our decisions.

Buddy R-Evolution is a case in point, which I will outline later. In parallel, we contribute and support our communities, investing in our branches and supporting our clients with a second tranche of per l'Italia, totaling €10 billion to face the strained economic condition. We're providing financial support during emergency as with our ongoing post-flood work with the Emilia Romagna region, we particularly focus on reconstruction projects for educational and use sports centers. With respect to the Italian windfall tax, we have opted to contribute €1.1 billion towards our non-distributable reserves. This is consistent with our broader approach towards distribution and capital and a choice clearly given to us.

Germany. Germany delivered further proof of the success of its ongoing client-centric transformation. Net revenue rose 15%, reaching €4.1 billion in the nine months, further accelerated by a strong third quarter with a 20% growth. NII is up 9% in the 9 months and 11% on a quarterly basis. Fees are up 2% in the 9 months, driven by positive contribution of corporate financial advisory business, while down 4% in the quarter, mainly due to lower demand on client hedging products consistent with the current macro and market condition.

Operational excellence continues as costs fell by 5% in the 9 months with quarterly performance confirming the trend, leveraging the ongoing transformation, self-financing investment to enhance our client's offering and our digital proposition. We further reduced cost income ratio in Germany to 42.8%. Our focus on capital efficiency further increased our net revenue to RWA by 1.3 percentage points to 7.2%. Profit before tax was 42% in the 9 months to €2 billion. With a quarter showing an accelerating trend up 57%, resulting in a RoAC of circa 18%. All this has been achieved while continuing supporting our community.

Central Europe. Central Europe delivered another impressive performance collectively and on a country-by-country basis. Net revenue rose 31%, reaching €3.2 billion in the 9 months, boosted by strong third quarter, up more than 35% -- 34%. NII grew 44% in the 9 months and 56% quarterly, reflecting the active management of pricing of assets and liabilities.

Fees were down 3% in the 9 months and 5% in the quarter, mostly driven by lower client hedging fees in Austria and Czech and Slovakia. Costs were actively managed, ending up only circa 1% in 9 months. And in Q3, despite the high inflationary environment and continuing investing in the business as we launched Digital Cash Loans in Austria and Mobile App for Small Business in Hungary. Our cost income ratio further declined to 37.5%. Our disciplined approach to RWA continued across countries, reaching a 7.1% net revenue to RWA, up 2.2 percentage points.

Pre-tax rose 68% in the 9 months to €1.8 billion, supported by a strong growth in Q3 of 73%, leading to an increasing RoTE, exceeding 23%. All this has been achieved while relentlessly investing both in digital, including improving customer service experience and in our people assuring our frontline significant training to best serve our clients.

Eastern Europe. Eastern Europe recorded an impressive quarter with strong top-line growth and a record profitability driven by all countries. Net revenues rose 45%, reaching €1.9 billion in the 9 months, also benefiting from a strong third quarter with in excess of 40% growth. NII strong increased by 50% in the 9 months and 60% in the quarter. Fees shows a positive trend in the 9 months, growing 2%, slightly decreasing by 1% in the quarter due to seasonality.

Eastern Europe confirmed its operational excellence with a best-in-class cost income ratio of 32.7%, down 8.5 percentage points in the 9 months with limited inflation driven drifts thanks to efficiency actions. Our disciplined approach on capital moved our net revenue to RWA further up 2.9 percentage points to 9.4%. We delivered €1.3 billion in pre-tax, up 78% in the 9 months and 62% in Q3, reaching an exceptional RoAC of approximately 37%, all of which underscore the rationale and potential inherent in the recently announced bolt-on acquisition in Romania.

Our regions are the backbone of our excellent results and allow us to connect our clients across Europe. Our cross border revenue is up 21% versus previous year. And our cross border payment market share is 3x, the intra-country one. We continue to drive the quality of our results through centralized Group factories that provide a currency of scale and scope. Client Solution reached €7.6 billion revenues, up 2% in the quarter year-over-year and down only 1% in the 9 months. Excluding the contraction in Russia, we would be up 2%.

Our product factories are the engine of capital-light fee generation. This quarter, we have changed the composition of our Corporate Solutions, combining advisory and financing into single leadership to further drive efficiency and effectiveness. We have also separated our payment division that we will discuss later in the presentation and made significant investment to strengthen our Individual Solutions business.

Looking at the factories in detail, I will now comment trends on a year-over-year basis. Corporate Solutions reported a 2% growth in the 9 months, 8% in the quarter with sustained fee performance in advisory and financing and positive NII development in trade and corresponding banking. Payment had a positive performance of 12% in the 9 months and 8% in the quarter, propelled by our unique European presence, NII and recent investment in the business. Individual Solutions still operate in a challenging macro environment, resulting in a 3% reduction in the 9 months, while flat in the quarter. We see however strong positive sign in the growth of managed funds and even more so in non-CPI protection. The attractiveness for our products is demonstrated by our partnership with Alpha Bank, a model that provide us with further growth potential.

The extent of UniCredit transformation is clear. We're generating positive jaws, while outperforming our peers across all levers. From quality revenue growth to portfolio solidity, capital and operational excellence to profitability, all have consistently outperformed expectation, while we have strengthened our lines of defense and invested in the future, and that is a critical point. By focusing equally on all metrics, UniCredit has moved from a laggard to a leader in each one of them, a position that this bank hasn't been in for over a decade. We have achieved a lot, but the relentless execution of our strategy and additional potential inherent with this bank means there is much more to come.

These results are even more impressive if looked at in parallel with our strengthened balance sheet. Our CET1 remains at the top end amongst our peer. We continue to grow capital in spite of our best-in-class distribution, thanks to our outsized organic capital generation. Our liquidity ratio remains strong, sustainable and well above peer average, allowing better management of margins. We maintain a high-quality credit portfolio with conservative proactive staging and provisioning, further improved by high overlays and a lower default rate.

Our consistent delivery on our 3 levers has led to an outperforming return on tangible equity of 21.7% at 15% CET1. On a per share basis, our progress is even more marked. Compared to the 9 months of '21, our EPS is up 167%, our DPS is up 3x and our tangible book value per share is up 35%. Our distribution yield stands at more than 16%, aligned with 16% on average since 2021 and our total shareholder return year-to-date are up 80%. As we recently announced, we will front-load €2.5 billion of our 2023 share buyback pending shareholder approval on Friday and supervisory approval. We're aiming to commence the buyback as soon as possible thereafter.

I will now hand over to Stefano, who will provide more details on our third quarter '23 results.

Stefano Porro

Thank you, Andrea, and good morning, everyone. Let's turn to Slide 11. In 9 months '23, we generated €17.9 billion of revenue, up 22% versus last year, mainly thanks to an increase in net interest of about €3.1 billion. Trading was €1.5 billion in 9 months '23, to which the third quarter contributed a robust €0.5 billion, up 27% year-on-year supported by the fixed income, currency and commodity business, positively impacted by higher interest rates. Our trading is mainly client-driven and less volatile than peers and has been consistently between €0.4 billion and €0.6 billion over the last 7 quarters.

Next slide, please. Net interest income was €10.4 billion in 9 months '23, underpinned by €3.6 billion in third quarter '23, up 3% quarter-on-quarter, driven by higher loan rates and still low deposit beta. Our strong equity profile and balance sheet allows us to prioritize pricing for deposits. We also remain focused on more profitable and capital efficiency loans, while supporting our clients, which contributed to lower loan volumes in the quarter.

Customer loan rates are up 33 basis points in the quarter across our region, leveraging on higher interest rates and thanks to our commercial actions. Average client loan volumes relevant for net interest are down €5 billion in the quarter, driven by Italy due to the impact of the large ticket reimbursement and an intragroup shift of a declined position to Germany as well as our focus on profitability and general market trends.

Our market share is really stable and we are strong in the most attractive segments such as consumer finance. Client demand for loans has declined in the first 9 months of the year and is expected to remain contained because of higher rates. Increase in the customer deposit rate is limited at 16 basis points for the quarter, while the average for about three months was up 41 basis points. Average commercial deposits are down 2%, while end of period decreased by €3.2 billion in third quarter '23, mainly in Germany and Italy. At the same time, our deposit market share across the Group is stable. The decrease in volumes in the quarter are mainly driven by large corporates using up their cash platforms.

Clients, especially in Italy, are diversifying their saving into more assets under custody product. The deposits are still well above pre-2020 levels. We expect the overall deposit value to continue slightly declining in 2023. This also reflects the impact of the BTP retail issuance in October, for which we placed €2.9 billion, whereby clients benefit from BTP return and we retain the assets under custody.

The observed deposit beta for the Group for both side and term deposit in third quarter '23 is slightly above 25%, an increase as expected, but less than assumed. The increase in the quarter is mainly driven by Germany and Austria. In Italy, we still have a low level of circa 12%. We have updated our managerial net interest guidance and sensitivity. Within a 4% ECB deposit facility rate and a better deposit beta slightly below 30% at year end, we expect an improved full year '23 net interest income guidance of above €13.7 billion.

We also updated our net interest income sensitivities. A 1 percentage point change of deposit beta is about €150 million at current rates and deposit volume assumption, while a 25 basis point change of the ECB deposit facility rate is about €150 million based on the current replicating portfolio contribution and deposit pass through assumption. As the latter increases, the sensitivity will progressively go down.

Let's turn to the next slide, please. Fees in 9 months '23 are stable compared to the last year, excluding the current account fee reduction in Italy worth €60 million per quarter in line with our guidance and higher securitization costs. We have a similar dynamics when comparing third quarter '23 with third quarter '22 as stronger investment fees didn't fully offset the impact of lower client hedging fees.

We are well diversified and balanced, as you can see from the year-on-year development of the different component part of our fees. Investment fees were up 4%, thanks to stronger asset under management sales and upfront fees. Financing fees are down 5% to the higher securitization cost stemming from our aforementioned active portfolio management strategies and lower fees for loan guarantees given lower loan demand, as mentioned earlier.

Transactional fees were down 6% due to the current fee reduction in Italy. Without this effect, transactional fees are up 4% supported by payment fees driven by client activity and property and casualty insurance growth in Italy. Client hedging fees were down 27% as client needs to hedge interest rates. Foreign currency and commodity risk have come down in the current market environment.

Let's turn to Slide 14. Reduced costs 1% 9 months on 9 months, while inflation of our footprint was about 7.6% in 9 months '23. In third quarter '23, costs were €2.3 billion, 2% lower year-on-year. HR costs are down 2% year-on-year, benefiting from lower FTS, down 5% to 72,000 across the Group, although particularly in Germany and Italy. The trade union agreement in Italy is currently being renegotiated on a national level. Non-HR costs are down 3%, thanks to tight cost management and remediation action compensating the overall inflation impact.

As you can see on the slide, we lowered our cost with targeted efficiency, more than offsetting the impact on investment and inflation, resulting in a much better performance in both absolute terms and relative to peers. We continue to self-finance investments, reducing the structural long-term cost base of the Group, while keep hiring and investing.

Let's turn to Slide 15. Cost of risk was at 7 basis point in 9 months '23 and still low at 12 basis points in the quarter, supported by our low default rate at 0.8% and good performance on repayments and back to bonis. The last 11 quarters prove a structurally lower and less volatile cost of risk than in the past and versus peers. UniCredit's average underlying cost of risk net of overlays in Russia has reset and was 16 basis points versus 50 basis points for peers. Our cost of risk run rate is structurally lower within a narrow corridor of 20 to 25 basis points. This is supported by our clean-up portfolio, a higher level of LLP provisioning and healthy overlays.

We check our overlay LLPs on performing loan stable in the quarter at circa €1.75 billion to be used for any shocks or to be released in the following 2 years. Cost of risk in Italy at 19 and 25 basis points in Germany reflects ongoing sound asset quality and is in line with the expectation. In Central Europe, cost of risk is low at 7 basis points, while in Eastern Europe we had met write-backs in the quarter driven by Croatia. The Group expect a loss on the business at 26 basis points also confirmed the credit quality of our portfolio origination and our discipline is ingrained in our organization.

Let's turn to Slide 16. We generated 321 basis points capital organically in 9 months '23. And in third quarter '23, we showed again an excellent generation of 113 basis points, of which 79 basis points from net profit and 35 basis points for risk weighted assets. Risk weighted assets stood at €290 billion, down €5 billion quarter-on-quarter driven by proactive portfolio management and business dynamics. We completed both share buyback tranches for 2022 for €3.34 billion, purchasing shares equal to about 18% of the share capital. Pro forma for the €2.5 billion anticipated tranche of the 2023 share buyback program, our fully-loaded CET1 ratio is at very strong 16.3%.

Before I hand back to Andrea, a reminder that, like in the prior years, next quarter, we expect a positive impact from DTA write-ups on the net profit.

With that, I hand back to Andrea. Please, Andrea, the floor is yours.

Andrea Orcel

Thank you, Stefano. The results that we have just presented demonstrates our ability to consistently deliver at a very high level. Nevertheless, they understate our underlying earning power as they have been consistently reduced by the cost of initiatives directed at strengthening our lines of defense and the investment we continue to make in our transformation. As we will go on to demonstrate, this is an approach that we're determined to maintain. We're not done with our Group transformation and we are excited in the differential value that we can still create in any market environment.

In terms of lines of defense to protect our future bottom-line, we have taken in excess of €1.9 billion of integration cost since 2021 with an IRR in excess of 20% that have allowed us to deliver a declining cost trend in spite of inflation and significant reinvestments. We expect this to continue in the near future. We have been conservative in our staging and in our provisioning levels. We can count on €1.1 billion of excess provision when we compare ourselves to the average of our peers market-by-market and €1.75 billion of additional overlays to protect our future cost of risk.

Finally, we have absorbed the costs and lower top-line growth related to improving our capital efficiency. This quarter is an example, thereby locking in structural higher profitability for the future. We have progressively achieved in excess of €26 billion of low profitability RWA efficiencies and freed up €9 billion of capital net of generous distribution and we're not done.

In addition to these lines of defense, we continue to make significant investments to further transform and propel our future. We have invested in our value-added products rebuilding and continuously strengthening our factories. These offer now best-in-class quality and provide us with a competitive advantage in each one of our markets. The recently announced transaction with Alpha is a further demonstration of the success of this strategy. We continue to invest in our people, in our franchise through hires, training and targeted infrastructural and technological investments. We continue to rationalize and upgrade our digital data and operation with the aim to improve our efficiency and client journeys.

Finally, we continue investing in our culture and in living it every day at all levels as we consider it to be what defines who we are. This will sustain our long-term revenue growth with full potential yet to be achieved. Starting from the factories with channel resources in specific high potential area, with the intent to improve the quality and capital-light nature of our top-line and support it once the positive impact from the rates and pass-through cycle ends. We're using three levers; organic growth by developing in-house solutions, inorganic growth through strategic external partnership, complementary investments in technology and distribution. Overall, we're aiming to increase our fee base by €1.2 billion at run rate.

With respect to asset management, our vision is to help every client achieve their investment objectives, providing them with advice and quality products at competitive terms. Our strategy to do so is to reinforce brains capable of selecting, designing, packaging, negotiating and advising on the best products and strategy for our clients combined with building up our in-house product capabilities and combining them with first-class partnership. We're securing a unified quality open architecture ecosystem to work across market and leverage our Group scale to exploit synergies for the benefit of local clients.

As an example of our progress, we have developed internal asset management capabilities with 18 onemarkets funds issued in year 1. We have rolled out our internal investment platform in Central Europe and established a partnership with Azimut with more to come. We target a 10 percentage point improvement in our value chain retention to circa 80% over the next five years. We have already progressed much.

Insurance. With respect to insurance, our ambition is to make it a core product fully integrated into our offering, providing our clients with the right level of protection. We're already a leader in life with an overall market share of 14% strongly tilted to unit-linked where we dominate with a market share of 38%. In non-life, our focus and investments have quickly borne fruit as we have secured a 15% share of new business. We see more potential to grow going forward.

We have made significant investments in people, in training, in technology and in rationalization and strengthening of our partnership to get us to the level we are at today. Our plan to internalize life insurance and transactions such as the one we have just tracked with Alpha will further increase the contribution of insurance in our results.

Payment. With respect to payments, our vision is to be every European client's first choice, particularly cross-border. Our unique asset, pan European footprint, strong payment DNA, advanced technology for data usage position us to be a leader. As of today, this is one of most sizable capital-light profitable businesses we have with total net revenue in excess of €2 billion on a yearly basis, of which almost 90% is fee-based.

We're developing end-to-end products and value-added services that meet the diverse needs of our clients. This ensure that these solutions are accessible across borders and that we leverage global data insights for enhanced decision making. Like with Mastercard, we will engage with the best partners to deliver innovative solution. We will be providing with more granular information and levers to achieve our plan in payments in Q1 next year.

Corporates. With reference to corporates, our vision is to empower them to progress, providing the best-in-class solution in the most effective way. Within our reach, we have strong market share in the SME segment across 13 countries, 14 now, including our access to Greece through the partnership announced yesterday. This is better access than any other bank in Europe.

While star regional counterparties compete with us in their respective local market, they do not have either the reach across Europe or the strength and quality of factories or the data and digital products offering we have. This is Group scale with local reach. As such, we're capable to attract the best subject matter experts in our factories as we deliver them access to entire Europe through their local colleagues. We're able to competitively invest at scale in advisory and capital market products such as FX rates, commodity hedging and technology platforms such as eTrader and our corporate portal.

Yesterday, we announced a long-term partnership with Alpha Bank, an opportunity to grow our footprint in a high growth country in CEE and to further reinforce our product factory distribution. This transaction underscores the strategic approach that UniCredit has taken in expanding both geographically and product wise since we unveiled UniCredit Unlocked, leveraging on the attractiveness of our pan European business. Details of the transaction have been extensively discussed yesterday in a dedicated call, so I will not take you through this again now.

Let's now move on to people, our most important asset. They drive our business. They face our clients and understand their needs. For this reason, we are investing to empower them to better serve our clients. We continue to streamline and simplify our organization, primarily at the center, our processes and the way we work. In less than 2 years, among average, we have reduced our layers by a 1/3, reduced managerial committee by 2/3, simplified 25% of our processes and we are continuing. This is releasing an immense level of efficiency and energy in the entire organization and we are far from being done.

In parallel, we unified the way we segment our clients. We refurbished 1,000 physical branches across the Group investing in them. We hired 7,500 people in the frontline since 2021. We provided a total average circa 30 hours of training courses per employee per annum across our franchise. We're determined to continue at pace in this direction. We launched Buddybank in 2018 as a response to those clients who wanted a digital bank. We have learnt a lot from that experience.

As such and as tangible evidence of our commitment to put our clients at the center of all we do, we're proud to announce that Buddy R-Evolution will go live in the first quarter of 2024 and will continue to evolve from there. Buddy R-Evolution is part of a continuous journey to evolve our service model, leveraging on our digital transformation. Enhanced yet complementary to our existing channels of physical branch, call center, Internet, mobile, Buddy is at its core, a digital remote branch that will provide our client to all existing products and services of UniCredit.

It allows clients to take UniCredit wherever they go and use it whenever they want, however they want. Buddy remote branch will be complemented by a mobile concierge via chat available 24/7and personal advisor available during extended hours, 6 days a week. The 750 financial agents that currently support our other channels shall also be available to Buddy's clients, by appointment, in-person everywhere at a place of their choice.

Whilst we undoubtedly live in an increasingly digital age, it would be wrong to assume that all our clients wish to bank only digital all the time. As such, we're shaping the way we connect with our clients through our distribution channel, now including Buddy, enhancing their own choices and operating as one bank. Our role is to serve our clients and to do so in the way that best suits them, providing them choice, discretion and flexibility. So for all those clients whose preference is to remain with a physical branch, they should do so. For those who prefer our remote branch set-up to follow them everywhere they go, Buddy is the right choice.

Digital. Our digital transformation is well underway. Since 2021, we have taken back control of our technology and data, reinsourced our brains, rationalized our teams, integrating them in one reduced management layers and develop the first iteration of our data architecture and platform. We have also renegotiated all supplier contracts to improve and save cost. We have reduced the number of incidents and increased the speed of response of service tickets from our employees.

These results allow us to accelerate on Phase 2 of our digital transformation, and our new management team is focused on paving the way for the future of UniCredit. We aim to converge our infrastructure and architecture, moving decisively from on-prem to cloud with a unified and efficient way of hosting all data and application, allowing consistency across all our regions. We want to leverage data to support last-mile client engagement, using artificial intelligence as the go-to enabler for every journey across the banking value chain. This, all while creating a culture of excellence in-house, in sourcing key technology expertise, thus reducing third-party dependence. The second phase of our digital transformation will further progress our UniCredit's digital capability and will be increasingly visible in our client's journeys in the near-term.

ESG has been a prerequisite of how we do business. We aim to lead by example, investing and embedding our values in all that we do, and this is recognized by all our stakeholders. I'm particularly proud to say that this quarter, MSCI upgraded UniCredit ESG rating to AA, providing a further appreciation of our robust integration of ESG practices into lending. And we are particularly proud that the social component was the key one driving this. We continue assisting our clients during transition with €17.5 billion of ESG lending and €21 billion of sustainable bonds issued since 2022. We are relentlessly supporting our local communities both during emergency period and with daily action, as shown by the over 270 Group-wide volunteering initiatives.

We're empowering the European future generation with more than €20 million invested by UniCredit Foundation in 2023 into youth and education support. More than 380,000 individual benefited of financial education activities thanks to our strong social commitments. All of this fills us with great pride and is the right thing to do.

Let's now move to the final part of the presentation, which brings us to our guidance for 2023 and 2024 and beyond. Our delivery of quality profitable growth combined with a continuous search for operational and capital excellence has led us to superior organic capital generation, returns and distributions. Together, we have strengthened line of defense and targeted investment for the future. We're confident in our ability to deliver a run rate that very few can match.

As outline, we consistently deliver best-in-class results and distribution for our shareholder, but we balance these with a focus on long-term resilience and sustainability, consistently investing a portion of excess profit to fortify our future. As such, we offer strong earnings and distribution progression, while protecting and investing more than our peer to secure future profitability and distributions.

In the foreseeable future, we will benefit from still ongoing industrial transformation and executed investment in our product factories, which will increase the quality and level of our revenues; integration cost that ensure lower cost base in an inflationary environment, while financing investment for the future and that will gradually disappear; structurally lower cost of risk leveraging risk discipline, conservative staging, provisioning and overlays. This will support returns, will support organic capital generation, enhance distribution. Distribution are further secured by the substantial excess capital that we carry and will gradually either be put at work profitably or directly distributed to our shareholders. Not many institutions can say the same.

Let's turn on to the last slide. Turning to our 2023 guidance. We are upgrading our NII guidance to over €13.7 billion, while confirming 25 basis points or better for our cost of risk. As a consequence, our net revenue guidance is increased to over €22.2 billion. Our RWA and organic capital generation guidance are also improved to below €295 billion and above $320 billion basis points respectively. As a reminder, we have been guiding to full year fees being broadly flat versus 2022 on a rebase basis for Italian current account fees. That translate to around €7.4 billion and there is no change in that guidance.

All other 2023 guidance item remain unchanged. It is obvious that this should lead to a substantial upward revision of our net profit return on tangible equity CET1 ratio and distribution guidance, everything else being equal, would blow out through the numbers you see on this slide. We have however not updated such guidance on purpose consistently with what we have discussed throughout the presentation, as we shall review the opportunity to further accelerate our investments in the future to protect and propel even further our profitability and distribution going forward. Until we make that decision, it is premature to update the guidance for the year 2023.

Given the strengths of the underlying earnings power in 2023, the above potential further investments and better macro assumption, we are highly confident to improve our guidance for next year to a net profit equal or greater than €7.25 billion and distribution equal or greater than €6.5 billion. While our final guidance for 2024 will be provided by the end of the year when we're fully clear on the further investment and where we land this year, we expect NII to moderate, but not to fall significantly.

Higher fees from our initiative and some macro recovery. Cost to remain close to the €9.4 billion in line with UniCredit Unlocked, leveraging ongoing efficiencies and in spite of inflation and greater investments. Cost of risk to remain stable. Integration cost and systemic charges to decline, providing us with further support to the bottom-line and to distributions. As indicated during Q2 results and as demonstrated today, the strong financial foundation we have built means we are well positioned to maintain these trends into 2025 and beyond. We're confident we will maintain a return on tangible equity at 13% CET1 run rate through the cycle in the mid-teens. And that our current level of distribution is sustainable and supported.

Thank you, everyone, and we now open for questions.

Question-and-Answer Session

Operator

[Operator Instructions] The first question is from Britta Schmidt from Autonomous Research.

Britta Schmidt

Yes. With regards to the restructuring costs, it sounds like they could be very meaningful, maybe up to €1 billion and that there will be some in the future as well given that they will gradually disappear. What sort of total budget, if any, do you have in mind for the next three years? And should we expect a similar IRR at more than 20% on that? And then the second question will be, can you provide a little bit more color on the potential timing of the €1.2 billion fee in insurance revenue upside? And how much of this is incremental to the 4% CAGR of the original business plan?

Andrea Orcel

Okay. So with respect to integration cost, let's put it this way. It's about the opportunity, like everything else. As we have been taking integration costs that have a 20% IRR, if we continue to see opportunities to rationalize, decommission, simplify and make investment at that kind of returns, while self-financing and not penalizing the bottom-line vis-a-vis our guidance, we will continue to do so.

The amounts, I cannot comment on them now. They are not definitive. And as I have said before, we started with Unlocked, thinking there was a certain set of potential. As we roll through and we dig further and further into detailing this organization, we found more and more potential, and therefore, more and more opportunity to unlock value. Integration cost and the amount that we're doing is an indication of that.

The fees. So for the fees, we see run rate. There are a number of things that affect that statement. When are we going to internalize our unit-linked exactly? What is the market going to be in '24 and '25? So it's premature to tell you when, but I would be disappointed if it weren't reached by at least 2026.

Stefano Porro

This has to be compared with the base of 2023 that we have commented before, i.e. around €7.4 billion. The base for the allotment was a different one. So you should stick to the base of 2023 fees.

Operator

The next question is from Azzurra Guelfi from Citi.

Azzurra Guelfi

Hi, good morning. Couple of questions for me. One is on the net profit guidance for 2024. Is it fair to assume that even if the number [Indiscernible] is above or equal to solid 125, there could be some improvement year-on-year in 2024 bearing the integration cost [Indiscernible] because if I understand well, the revenue expectations to be flattish, which is far better than what [Indiscernible] currently expecting? The second question is on cost of risk. Can you give us some color on what do you assume in your guidance for flat cost of risk in terms of re-lease or redeployment of the other [Indiscernible] because they are quite sizable and they could be a significant healing factor, for example, asset quality and profit?

Andrea Orcel

So 2024 was the question. So if you had back in mind the slide I have on the preliminary guidance on the line items for 2024, what do we see? We see some pressure on NII because we consider rates -- average rates, to be similar next year to this year, but we see some further convergence of the pass-through. So that is a negative, although the conversion of the pass-through seems to be running at a pace that is a lot slower than we thought. And in certain countries, we also have Fed reversal. In certain countries, the pass-through is going the other way.

Now that slight negative is in part or in full or more than in part compensated by our replication portfolio that adds hundreds of million every year as we roll through the reinvestments. What is not clear is whether we have mentioned it in the presentation. We have a negative volume effect in our NII at the moment. A negative volume effect is a result of two things. One, that the market is less buoyant on lending. As we have said, we have a significant reduction in volumes and our market share is flat or actually increasing. So it means that the market overall is going down. We don't know if it will stabilize and indeed reverse and when that will happen. That's one element.

The other element, you've seen in this quarter and you have seen it in the impact on our fees. We have been accelerating securitization with negative impact on the fee line. And in some cases, the active management of our lending portfolio means we do not roll certain clients, which means a further pressure on volume. But these two things are not going to continue at this space forever. They are coming down, we think at this point in time with the over-earnings, it's a good thing to accelerate them and release value in the future, but we do not know exactly how that will map out.

Fees. Fees we've said are going to come out next year. First of all, as a base, we will no longer have the noise from the Italian current account fee. Secondly, on securitization, we need to see that we may not be as aggressive as this year. And thirdly, a lot of investment, and most importantly, that we have done in our factories are starting to grind through and indeed the plan on payment sees an acceleration. So if I put all of this together for a second, I ignore trading, you have a top-line that should be in line in '24. If I extend to '25, fees will be better, NII will be slightly worse. So I'll let you conclude.

With respect to the lower end of the P&L, costs are going to be lower next year and we think we can keep them there all over the following year. Then we have cost of risk. And this allows me to touch on your second part of the question. Second part of the question is cost of risk. We said in Q2, and that's the way we pictured, UniCredit of, let's say, pre-'19 had, let's say, mid-level cost of risk around 50 basis points per year. That tended to peak in excess of 80 every time there was a shock. We're not the UniCredit of pre-'19.

Our lending portfolio has and continues to be cleaned up. Our provisions that were in deficit to our peers are now in excess of our peers. Hence you're seeing write-backs. Look at the amount of write-backs we're having at this point in time. And thirdly, we have substantial overlays. So if you look at it in that way, at the moment, we are provisioning more generously than what Street census is needed in this environment by pushing up our cost of risk. You're not seeing that because of a write-backs that we are.

In the future, when the cycle first stabilizes and then invert, all these provisioning, early staging and overlays are going to be released gradually to keep the cost of risk within 20 to 25, which is why we see flat. And so we are going to achieve 2 things that are important; structurally move the cost of risk of this Group from 50s to a 20 to 25. And secondly, quite even more important, massively reducing the volatility of that line item that used to blow up and down our result over time and making our results more forecastable.

Finally, with respect to upside on '24, et cetera, so I stopped at the cost of cost and cost of risk. There is one element that we'll be dependent and that is also the reason why we're not going further on what we do this year, which is integration cost and other investments that we may or may not front-load in the fourth quarter. Depending on how much we do this year, we may have to do a lot less or none next year. And therefore, you have hundreds of millions that they move up and down and support further 2024.

So we feel confident, although it is only October, to give you in this environment an equal or greater than 725 and distribution equal or greater than 6.5. We will be reviewing this guidance when we know more at the beginning of next year.

Operator

The next question is from Andrea Filtri from Mediobanca.

Andrea Filtri

Two questions; one for the long-term and one for the short-term. First, [Digital euro]. What do you see as risks and opportunities of the digital data implementation? Have you budgeted the impact to your business model? And how can you share it with us? Second, very short-term, lots of incoming this morning from investors. What is the most likely timing of the launch of the €2.5 billion share buyback to be approved on Friday?

Andrea Orcel

So I'm going to start with the second one because it's shorter. Assuming shareholders approve a share buyback on Friday, it is solely dependent on the ECB approval that we expect shortly, but it depends on them. As soon as we have that approval, we will be starting, and hopefully sooner rather than later.

The digital euro, so I think we have started analyzing, I would say, high level impacts in terms of cost, liquidity, security, risk, et cetera, et cetera, that the adoption of the digital euro will have on the Group. I think the most important impact for us or for banks is the digital wallet, i.e., the expected or proposed €3,000 cap in digital euro that at this point in time will be a direct obligation of ECB rather than going through the banking system as an obligation of the banks backed by ECB.

That if in this form, in our opinion, will have significant impact on liquidity, will have significant impact on pass-through deposits and effectively could change the dynamics and the profitability of entire franchises in certain regions and may change the way we look at the deposit side of the equation. That's the negative. It's not clear. I personally don't expect this to rollout before five years plus, but I may be wrong. And it is not clear in which form it's going to roll out. With respect to the positive, we will be -- it plays in our favor in terms of payments and all the other products and services that we think we may attach to the digital euro as it is rolled out.

So I think -- and then the third point that is a question is on the infrastructure side, if it uses the existing payment infrastructure or not. So depending on the answers on these topics, which at this point in time it's premature, it will have a significant or less significant impact. But I do think that it will definitely have a significant impact in the shape of our profitability, shifting things from one side or the other depending how it is introduced. I don't have much more for you, Andrea, on this.

Operator

The next question is from Delphine Lee from JPMorgan.

Delphine Lee

My first question is on asset management. Thanks for the details on the potential for additional fees. I was just wondering how much inflows do you expect for your in-house asset management and the timeframe? And sort of what do you expect between the share between Amundi and your own in-house asset manager in terms of AUM long-term?

And then my second question is on the buybacks in general. Do you think an exceptional buyback is possible in 2024? I mean, you've already anticipated like the ordinary buyback, but I'm just thinking like on the excess capital, on the exceptional buybacks. Do you think it's possible in '24 given the Group has chosen not to pay the levy in Italy?

Andrea Orcel

So I will start with the second one because it's easier. On buybacks, I would say the following. The first thing, at least I focus on, what is the level of sustainable ordinary, so non-exceptional. Distribution, in particular, share buybacks because it's part of them and it's reliant share at the moment that we can support recurrently. At the moment, we're giving you a number of 6.5, we're sticking to that number. But my objective is to make that number grow, not go down. So that's the first point.

Then there is a second question, which is a very reasonable question. We have accumulated almost €10 billion of excess capital relative to our initial targets. So when is this coming back and in which forms? I do recognize that we are the only bank that not only is not distributing its excess capital, but is actually increasing it. So I said very clearly in UniCredit Unlocked that I could not reach 2024 without dealing with it. Obviously, I didn't expect it would be so large. It is clear that if they are not more profitable usage of that capital, I will be proposing for non-ordinary exceptional buybacks in 2024.

With respect to asset management -- and by the way, not to be confused with our ordinary level of distribution, those will be on top. Asset management. So if we look at our asset management -- and I think it's important that we clarify that. So for us, asset management is providing the best product to our clients. And our clients as the one of the 13 banks and now the 13 banks by plus Alpha. Our purpose is not to do that with institutional funds or third-parties or whatever. So our factories and what we focus on is that.

So we will always, if we want to be a best-in-class [farmlands] provider, we will always be paid on a majority open architecture set-up. Amundi, Blackrock, Capital Research, best-in-class. The value that we add on that side is negotiation terms, getting the best term for our clients; asset allocation, product design, technology delivery, and in some cases, repackaging into products that are better suited for each one of our geographies.

I'll give you an example. I could not leave that level of sophistication in the smaller CEE market, because just those large asset management companies do not reach there. But having centralized, now I can. So I will give a differentiated value to those clients. Then there is a second part, which is the products that I feel comfortable doing in-house, because I get scale, they're simple enough and I can add value in them. And that is what I guess you're looking at in terms of my in-house asset management. But I look at it as doors.

In terms of what we have today, we have Amundi that has the lion market share of everything. It's rebalancing a little bit and we'll be balancing going forward. But I do think it will remain an open architecture approach. The way we're looking at it is quite different. So look at it this way. In 2021, because of the approach we had before, if you take 100 as the value chain of asset management between distribution and production, this Group had significantly less than 70% of that value chain being recognized to us through distribution fees.

Today, we are at 70% and we're setting to be able to distribute in markets that we were not distributing before, i.e., CEE market. So volumes also. Our objective is to bring the amount of capture of the value chain for the 70% today to in excess of 80% in 3 or 4 years. And you can say, yes, but you're leaving a spillover of 20 points, 15 points, 20 points to somebody else external. Yes, but #1, this is a cost of giving my clients the best product I can possibly give them. And #2, those providers also support the cost of developing those products, which obviously I don't support. And thirdly, they get skilled benefit and I will never do. So that's the way you should look at how we look at asset management.

In terms of value, I think in-house, strictly speaking, we're looking at about €20 billion.

Stefano Porro

So arriving at steady state with a range between €20 billion and €25 billion of value, yes.

Operator

The next question is from Antonio Reale from Bank of America.

Antonio Reale

It's Antonio from Bank of America. Two questions for me. The first one on the mix of your capital distribution and the second one on deposit betas. We're approaching year end and you've anticipated a portion of share buyback from your full year distribution. So I wonder how you're thinking about the mix between dividends and buybacks from year onwards? When do you think it will make sense to start increasing dividend payouts? Also, you significantly increased the frequency of buybacks, which is almost on a quarterly basis. Would you also consider increasing the frequency of your cash dividend by introducing an interim? First question.

Second question is on the deposit betas, which seem to have decelerated in terms of growth this quarter, especially in Italy, you've lowered your terminal deposit beta assumptions. Can you give us an update in terms of what you're seeing both from competition from your client base when it comes to deposit pricing across your key geographies?

Andrea Orcel

Okay. Let's start with the mix of capital distribution. So for the time being, we're guiding for distribution of -- in excess of €6.5 billion, of which 35% of net profit of the year, in this case in excess of €7.25 billion in the form of dividend. So the cash portion of this distribution is arguably low.

Why is it low? It is low because for as long as I can buy my shares at according to consensus, 5x to 5.5x according to what I'm guiding lower, I think I am doing investors a favor by reducing the share count and boosting the yield going forward. So in part, the mix is linked to that. However, I do realize that as we progress, we need to provide people with a progressive dividend and that the percentage of net income that we need to pay out needs to gradually increase.

At the moment, the progression is given by reducing the number of shares and at the same time increasing the net income of the year. So you have a double effect. Net income increase, the 35% goes up and a lot, and secondly, you have less shares, so the DPS goes up even more. But at some point, we're going to have to increase the dividend payout. What is my view on that? It's to progressively bring it not above 50. I'm not anticipating to go more than that. That is going to be progressive. And why not? Because I think people get armstrong by being locked in excessive distribution rates and any enterprise has volatility. And therefore, as our profitability will reach a lesser gross rates, as our valuation will progressively adjust, you should expect that the parting dividend is going to increase.

With respect to what we're going to pay, to be honest, as long as we have 35% and as we are, it doesn't make a lot of sense for me to go quarterly, although I'm very happy to look into it. That's just a reaction. If we increase the distribution, it will. And therefore, we will also address that. But we're very happy to have discussion with our shareholders on what the preference is on both statements.

So then, well, I will pass for the detail to Stefano, deposit beta. So I know we've discussed a lot about that. Let's look at it. Let's go back to basics. Our structural deposit, especially in Italy, is not the structural deposits that exist in Germany or that exist in the United States. We have very low balances, #1. Those balances are used for the needs on transaction on a weekly and monthly basis, #2. #3, our client base has been used with negative rates. And given that Italians are particularly a saving nation, to move as much as they can of their excess cash in assets under management or in any case in investment that yield.

So you could say that they are already moving what they don't need to for transactional to other for investment. And you could say maybe, that's my own interpretation, that we are experiencing a higher deposit beta, but instead of seeing it in the current account, we're seeing it in the move between asset under management and asset under custody. As clients all of a sudden can get very high yield on Italian government bonds.

And therefore, in terms of having recessive cash into the current account, which they didn't have in assets under management, they move them to assets under custody. When you stabilize, you're going to have a flow in the opposite direction. So this is my rationalization as to why, if you look at the deposit beta, as Stefano has said, it is about 12% in Italy versus a little bit over 25% in average on the rest of the franchise, reaching peaks in certain parts of the franchise of 40%.

So I think that answer. But in terms of competition, again, it's important to realize, #1, transactional. 1% in rates when you have €5,000 on your account is not a lot. It's obviously more the current account fees that we have just eliminated. Secondly, if we have a 90% loan to deposit ratio, to be honest, I don't need to compete. What I offer clients is the best yield they can get in the best product for them.

Is it a certificate? Is it BTP per l'Italia? Is it an assets under management? We will give them the best. And then we will give them transactional service with discounted fees because we're taking the fees down. That is I think the best thing to do. For that reason, while we have movement on our deposits, we have them with corporates, we have them with high net worth individuals, which obviously have a different approach to the management of our liquidity. But even then, I think we have all been well, at least I have been wrong in the speed and strength of the deposit of the evolution of the deposit beta. And we're now anticipating a slower growth, which is still I think more than some of our competitors, and then a stabilization into end of '24 and '25.

Stefano Porro

So adding a little bit more color in terms of volumes, the deposits are fundamentally stable. So I've done 1% quarter-on-quarter mix, so site and term, in a shift to term in comparison to site. So quarter-on-quarter is plus 7% to term, minus 3% on site, I would say, all the countries, but Italy. So in Italy, still we are having 95% of site, as commented before and also integrated by Andrea. So the increase in the quarter is differentiated by countries. So Italy is up 1 percentage point. In countries like Germany and Austria, the deposit beta move around 4 percentage point up.

So for example, in Germany moved from 33 to 37, while in Eastern Europe we have normalized. So the deposit beta even decreased from 24 to 22. What we're expecting for the fourth quarter is still an increase, but let's say with a similar path in comparison to what we saw in Q3. And the competition, as like [Indiscernible] is more intense in some segments, large corporate and wealth management.

Operator

The next question is from Giovanni Razzoli from Deutsche Bank.

Giovanni Razzoli

Two questions. The first one is on the €1.2 billion of incremental run rates in terms of fees. If I take your comments correctly, you would expect that deals upside to materialize before 2026 or no later than 2026. So I was wondering whether my understanding is correct? And I was wondering whether -- I mean, you have provided a very clear details about the several businesses contributing to this. Is there some of these businesses which may provide this contribution before 2026? I'm thinking, for example, to asset management. And related to this, I haven't seen any comment about the possible impact from the internalization of the servicing activity of the NPL? Is it an area which can also result into higher fees clearly as a result of lower expenses going forward?

And the second question -- sorry, clarification on the comment you have made on the 2024 distributions. Did I get it correctly when you said that if there were no option in 2024 to allocate capital to organic or external grow options, you would be ready to propose the distribution of part of your capital?

Andrea Orcel

Okay. So incremental fees run rate, obviously it's a slope, meaning it's not all in '26. And I have taken '26 as a marker. It is a slope that goes there. What you're probably asking is what is the inclination of that slope? And my answer, not making it easy for you is, it depends. So I'll take you through an example. How fast decisively I can put -- I can do the integration of unit-linked in Italy? Is that beginning of '25? Second quarter of 25? It depends.

Secondly, we now have a partnership with Alpha. How much growth do I get in there? And by way, it's not in the €1.2 billion, that's incremental. So there are some actions that I don't know the timing of. Secondly, there is macro. We think that a lot of positive impact from, for example, on our investment business and transition out of asset under custody into asset under management is linked to more clarity on when rates have stabilized back at a latter level and hopefully a little bit more comfortable geopolitical environment.

Yes. If you tell me when that will happen, I will hook in the speed at which I can capitalize on all the things that we have built, because in the shorter term, you're going to have many more fixed income and asset under custody, short-dated investments. So I think there is that kind of thing that's why I'm not being more precise. We are assuming that -- I am assuming that by 2026 this has happened, and therefore, by then we land. The slope of that movement depends on what I have just said.

Then there are indeed some things that may change. And I would like to say that they may change in a positive direction, but I cannot confirm it yet. So if you had asked me at the beginning of the year, I would have come with €900 million incremental run rate fees because I didn't even have enough visibility on my payments. Now I do and I'm putting a marker for €300 million. Do a CAGR on €300 million in three years. There's nothing material and that's mostly fees.

So that is before having a full business plan, investments, replugging it in the way we should be replugging it in the network, i.e., pushing international payment, improving our technology underlying, et cetera, et cetera. I will give you more indication of that early next year. If I can do that and depending on the timing of that, then I have an acceleration. If not, the incremental run rate fees will continue to increment as '26. So I think there are too many things that are macro investments. And as we continue to unlock the bank pieces that are coming out that we need to reflect more on.

If you look at the distribution, understood correctly. So what we are saying very clearly today is we have committed to in excess of €6.5 billion for next year, which is based in excess of €7.25 billion net income for next year and the organic capital generation that we are assuming. So that is there. And it may go up if the results are better and we will clarify that at the beginning of the year. In addition to that, what I have said is when I went through UniCredit Unlocked in December of 2021, I said that we had some excess capital to start with. We would be initially accumulating excess capital, while providing generous distribution. But that it was clear in my mind that as I reached 2024, I could not just sit on idle cash and I would need to give investor clarity and line of sight on how I'm going to return it to them.

So the short answer to your question is, yes, in 2024 we will need to either give you a very clear -- well, not either, to give you a very clear line of sight of how we're gradually distributing the excess capital, further underpinning our ordinary distributions over time. And that will be done primarily in two ways at the moment. Either additional non-ordinary distribution that complement the only distribution I just explained or acquiring earnings at attractive rates and creating with a new earnings momentum additional distribution which now are ordinary because I have acquired them and they go back into my net income. This is what we're going to do. The mix between those and [Indiscernible] will be more clear as we get into 2024.

Operator

The next question is from Chris Hallam from Goldman Sachs.

Chris Hallam

Just two quick questions. So first on the hurdle rate for incremental capital deployment next year. The way I read that '24 guidance is you're expecting earnings to be around a similar level year-on-year rather than trying to pin it on €7.25 billion. So should we assume the same stability year-on-year for return on capital? Andrea, you previously sort of flagged some of the incremental growth opportunities which are now EVA positive. So I just wanted to check whether you're thinking about those opportunities versus the current level of RoTE or the 15% hurdle?

Then second on distribution. You've talked earlier about how you have flexibility to do quite a bit more than €6.5 billion this year should you wish to. And I guess, we'll hear more about that at Q4. But given some other banks have recently sort of walked back from higher payout ratios, I wanted to check whether you think you could get supervisory approval from the ECB for distribution at or above 100% or whether that's now becoming a bit of a ceiling?

Andrea Orcel

Okay. So why don't I start with a second question. And please take the caveats that I am just interpreting and I can be off. But I think the ECB has demonstrated that they have been comfortable with the level of ordinary distributions as they have approved them until now. I can't talk for the future, but my expectation is that if our profitability, our capital build, organic capital generation, all hold, I don't see at the moment any reason why that should not be continued. But it's up to them, it's not up to me.

The second part is the non-ordinary portion. I think it's fair to say that when you're running the excess capital that we're running, distributing in excess of non-ordinary is generally viewed as okay, obviously within what you're trying to do with your plan. But we're not at the level where we're debating whether we should be at 13, 12.75, 13.25, 13.5 or at a level where we are at 17.2. So I really do not believe that non-ordinary distribution that complement our ordinary distribution are going to be a significant problem if we are in this environment with these numbers.

And therefore, the short answer to your question, if you add the non-ordinary to the ordinary, can we go over 100? My view is yes. My view. And I am rather confident that it is my view. And it should be like that because every other bank in Europe has been allowed to be doing that when they have that excess and we have more access than anybody else.

The second one was on the hurdle rate, if I saw it correctly. Sorry, let me go back and...

Chris Hallam

I guess, simplistically, just return on tangible...

Andrea Orcel

Yes, hurdle rate for capital deployment. So on hurdle rate for capital deployments. So #1, I would like to bring you all back to one thing. An institution and a bank is an institution, cannot be squeezed like a lemon over time. You need to invest in it. So you need to balance for giving investor as much of a yield and as much of a return as you possibly can because we are using their capital. But at the same time, I think it is in the interest of the investor that the capital that remains in the bank continues to yield and continues to grow.

So we need to find the right balance between investing and returning. If you were only returning, we would be done in five years and a bank is particularly dangerous. And if you're only investing, you're not going to be very happy to not see a penny for five years. So we are going through this round. So at the moment, the level of macro, et cetera, and the discipline with which we have attacked, UniCredit Unlocked has allowed us to do both without leaning on you. Meaning you get all the returns and all the distribution that hopefully you like. And at the same time, I'm self-financing all the investments, all the lines of defense and all the things that we need to be doing to continue delivering in '24 and '25 and beyond.

In doing that, when we look at investment, yes, we are quite disciplined. I would like you to ask my colleagues, if they come to me with an investment without a clear business case and a clear hurdle rate, what happens to the proposal? So we will continue. We have a cost of equity. At the moment, I think that our cost of equity is bloated because I think we are -- the market is giving us more than 20%. But I would say that at this point in time, our cost of equity, the real one, is in the either low-teens or high-12s. What we can deliver is in the 15s. So I think that if I hurdle above 15s, it's really a no brainer and I should do that for the long-term. If I'm between 12 and 15, it's a question. If I'm below, it doesn't hurdle. I hope it answered your question.

Stefano Porro

We can confer stability of the profitability return on capital year-on-year, i.e., we have return on capital above mid-teens, calculating the return on capital at 13% capital ratio.

Andrea Orcel

And Chris, one last thing. If you look at €7.25 billion and you consider that our -- in excess of €7.25 billion and you consider that our equity at 13% is sub-€40 billion, €38 billion, €39 billion, you'd see that our structural profitability when you take the excess capital out, and we have just discussed that you're going to either invest it or return it at a hurdle rate of a certain amount, you're looking at return on tangible equity in excess of mid-teens. Actually, you're looking at return on equity close to the 20s. So if you're looking at what is our underlying profitability for '24, you have your answer.

I am not committing to '25 because I don't have the crystal ball. But directionally that excess profitability to a mid-teens should protract in '25. Then at some point in the cycle I don't believe to have such a high margin on your cost of equity for a protracted period of time forever, it will converge. But we think that with the discipline we have on operational efficiency, on capital efficiency, on how we deploy our capital, the investment we're making, and the opportunities we have in the 13 market, we will be able to beat our cost of equity by a margin through the cycle on a consistent basis. That's why we're guiding around mid-teens.

Operator

The next question is from Ignacio Cerezo from UBS.

Ignacio Cerezo

I just have one question basically on the lending yield. If you can give some color on the main geographies. How much lending repricing do you think is left from current levels? Looks like the lending yield expansion is slowing down a little bit, as expected. So just trying to understand how much of a tailwind that is into the next 6, 9 months.

Andrea Orcel

I'll start and pass it to Stefano. I think most of our lending repricing is focused in what this Group used to call Western Europe, so Italy, Germany and Austria. In the rest of CEE, we were doing, in my opinion, a better job in terms of profitability of the lending. In Western Europe, I think we -- I have the numbers of Italy, but for example, we are now 2/3, if not more, of our corporate portfolio has been repriced.

To give you an idea, we used to have an average yield on our corporate portfolio of 3% to 4% in this country. We now are well into the double-digit. So the impact has been, you could argue, okay, there has been rates, but you don't get that distance just by rates. That's what I'm saying that UniCredit Unlocked is propelling the environment. You have that distance because of rates, but also because we're repricing and we're being very significant.

So will we ever get to 100%? The answer is no, because you always have to look at the overall client relationship and sometimes you give a little bit on the loan and you get a little bit on other services and you consider the entire relationship together. But I do think that there is my expectation significant more to do in '24 and in '25. Beyond that, it depends on the speed. As you have seen, Ignacio, we have accelerated this quarter securitization. That's why it has hit one of the lines of fees. If we see possibility to accelerate on securitization, accelerate on exit of unprofitable relation now that the overall margin is good, we're doing it now, we're not doing it later. And then from that base, hopefully the volume starts back up and we go further down the line. But I'll leave it to Stefano.

Stefano Porro

Yes. I would differentiate, let's say, client trade pricing versus the spread, i.e., enough of the cost of funding, because if you look the client rate and we look the front book versus the back book, we are clearly higher in all the countries. I think it's better to focus on the spread which is net of the cost of funding. So if we are looking at that, we are in this quarter around 10 basis points higher, i.e., the front book pricing is 10 basis points higher than the back book. And for example, Europe is that we are more or less at same level front book pricing and back book pricing in Italy and Germany, while we are able to price with higher client spread the net of cost of funding in Central Europe and Eastern Europe. We do believe that progressively we will be able to improve also in the Western Europe, subject to, let's say, the overall level of competition. Also taking into consideration that, as commented at the beginning, the demand for credit is lower. So it's expected also potentially higher competition in some segments.

Operator

Mr. Orcel, the floor is back to you.

Andrea Orcel

Well, thank you very much everyone for your time. And I guess, we'll see you at the next quarterly results. And hopefully, we will continue to deliver on our plan and cost a lot of money to the non-believers. Thank you very much.

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